NEAD WORKING PAPER

FARM POVERTY: A CURRENT ASSESSMENT AND RESEARCH FOCUS

BY

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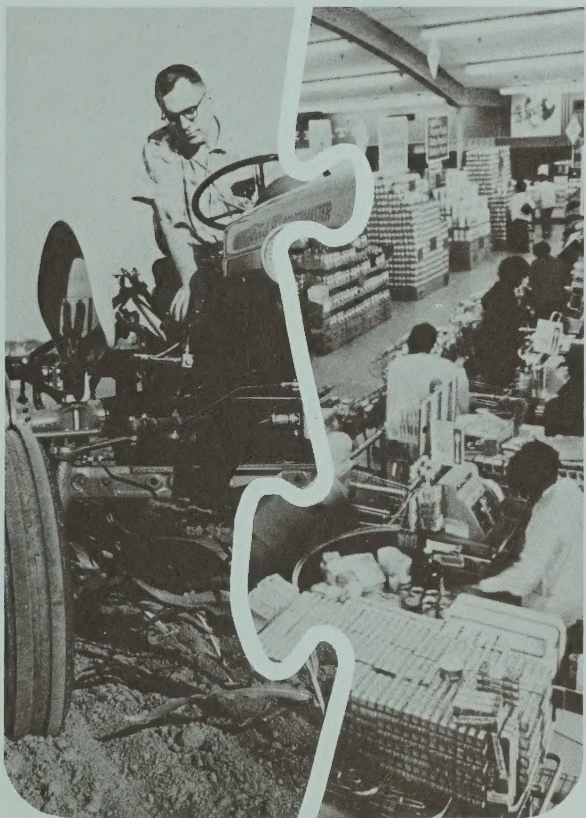

ECONOMIC
RESEARCH
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UNITED STATES
DEPARTMENT OF
AGRICULTURE

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SUMMARY

The incidence or poverty among farmers has dropped dramatically during the past 15 years. Fifty-one percent of the farm population in 1960 was in poverty compared with 16 percent in 1975. Farmers comprised 19 percent of the poverty population in 1960 and 5 percent in 1975. The continual decline in the farm population and the increase in dual employment among farmers explains much of this change.

Farm poverty has a distinct regional distribution. Over half of the Nation's poor farm people live in the South. Many of the remaining poor farmers are located in marginal farming areas such as the Ozark Mountain region, and the cutover areas of Michigan, Wisconsin and Minnesota.

Personal characteristics such as race and sex are associated with high rates of poverty. Thirty-one percent of the farm households in poverty have a head of household that is either Black or female. The general characteristic associated with the lowest rate of poverty in farming is a household with a white, male head. While most farms (84 percent) are in this group, only 13 percent are in poverty.

The farming operations of those in poverty generally have limited capital and land. Most such operations had negative returnson investment when returns to labor and management are deducted. Less than one-third of the poorest farmers had any debt and those with debt had a relatively high equity to debt ratio. Managerial abilities on these farms would be judged to be poor, as indicated by low average crop yields.

Sufficient questions remain about farm poverty to warrant suggesting further research in the areas of definitions, characteristics associated with poverty, farming potential and income improvement programs.

FARM POVERTY: A CURRENT ASSESSMENT AND RESEARCH FOCUS

In 1975, an estimated ten and one-half million or 14 percent of U.S. households had incomes below the poverty level. About 420,000 (4 percent) of these were farm related (32). Those below the poverty level comprised 16.4 percent of all farm households. 1/

Many of these persons depend on farming for a significant part of their livelihoods and, therefore, they are a special concern of the U.S. Department of Agriculture. Since most of these farms have low sales volumes, past and present production-oriented programs probably have had little impact on their low income levels.

The purpose of this paper is to present an overview of the current situation of poor people in farming. A short perspective is presented followed by a discussion of some of the features of poverty definitions and the presentation of data on the characteristics of poverty level households and their farming operations. A final section is used to suggest the need for further research.

Twenty Years of Activity

In the not too distant past, the problem of poverty was of a greater magnitude, or at least received more attention, than is the case today. During the fifties, Mr. Galbraith in a best seller, The Affluent Society, divided the population into fifths using family income, with the lowest fifth being defined as in poverty. Noteworthy was the conclusion that "a substantial share of these low incomes are in agriculture" (9, p 251). Estimates for the end of that decade placed one of every five persons in poverty on a farm (30).

In the sixties, the President initiated a "War on Poverty" and we received the monumental Report by the President's National Advisory Commission on Rural

1/ Poverty statistics are based on the definition originated in the Social Security Administration and adopted by the U.S. Bureau of the Census.

[illegible]

In 1959, [illegible] percent of [illegible]

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Poverty (21). This report pointed out that while 30 percent of the population live in rural areas, 40 percent of the nation's poor live there, and one in four of the rural poor live on farms. There was a growing tendency for the agricultural economics profession to analyze the National poverty problem and poverty in rural areas and to devote less space to the problem of poverty within farming (2, 6, 16, 23). By the end of the decade, rural poverty was put in a context clearly separating the problem from farming as an occupation (3).

Current discussions have presented more careful considerations of our measures of farmers' welfare (4, 14, 15). Closely related to these activities have been proposals for further refinement of the official poverty lines. A 1976 report to Congress contained among its host of considerations, the idea that the current differential between the farm and the nonfarm poverty threshold be eliminated. This change was estimated to raise the percent of the total population in poverty by less than one-tenth of one percent. It would, however, increase the percent of the 1974 farm population below the poverty line from 16 to 20 percent (35).

By 1975, the official statistics noted a farm residence for one out of twenty people in poverty. There was an estimated 1.3 million people in poverty living in 420,000 farm households (Table 1). In absolute terms, this is a large number of people. In relative terms, it represents a marked decline from the seven and one-half million people in 1,848,000 farm households judged to be in poverty in 1960. The trend suggests that the human resource problem which existed in farming may be well on its way toward a solution. An alternative hypothesis is that the remaining hard core residual of farm related poverty can only be eliminated by some new initiative.

Table 1.--Selected Population Characteristics and Number Below the Poverty Level, United States, 1975 1/

	Farm		Nonfarm	
	Total	Poverty	Total	Poverty
	Numbers in thousands			
Population				
Total	8,034	1,316	202,829	24,562
Percent		16.4		12.1
65 & over	971	161	20,691	3,156
Percent		16.5		15.3
In families	7,674	1,198	182,956	19,591
Percent		15.6		10.7
Unrelated individuals	360	118	19,874	4,970
Percent		32.7		25.0
Households				
Total	2,560	420	73,919	10,118
		16.4		13.7
With Male Head	2,275	331	54,869	4,356
Percent		14.5		7.9
With Female Head	285	89	19,050	5,762
Percent		31.2		30.2
With White Head	2,427	350	64,949	7,460
Percent		14.4		11.5
With Negro Head	121	65	7,866	2,459
Percent		53.7		31.3

1/ Poverty level or threshold is $4,697 for a farm family of four with a male head of household and $5,502 for a similar nonfarm family.

Source: U.S. Bureau of Census, Current Population Reports, Series P-60, Number 106, table 8, 1977.

Poverty Defined

Rein (24) identifies three types of poverty definitions: (1) subsistence, (2) inequality, and (3) externality. The subsistence definition has the concept of some minimum need to maintain health and working capacity. However, the biological minimum is not suggested. Once past the biological minimum, values, preferences, and political realities are of great influence and the definition becomes a socially-defined minimum level of living. This definition, which has an initial appeal because it appears objective, has as its basis the same type of subjectivity which provides the grounds for criticism of the other two types of definitions. The inequality definition is built on the concept that the poor cannot be isolated but must be considered in relation to the level of living of the affluent. This leads to working definitions which may express a poverty threshold as some portion of the median income. An externality definition considers the social consequences or costs of poverty on the rest of society. A definition with this basis might be considered an index if disutility. The three types of definitions all end up having some value orientation but the subsistence type is the most popular.

The poverty definition used by the Federal government is of the subsistence type (22). It has been refined many times by concerned governmental agencies and is still being reviewed (35). The refinements make allowances for farm and nonfarm residence, size of household, and sex and age of head of household. The definitions are based on the USDA's nutritionally adequate economy food plan put forth for "emergency or temporary use when funds are low." House and other living costs are estimated at a fixed ratio of the cost of food and the poverty threshold approximates the budgeted food cost times three. Initially, farm families were assumed to raise 30 percent of their own food. At the present time, a

allowance of 15 percent is made for home produced food. No change is made in the assumption about other living costs and the farm poverty threshold is 85 percent of the nonfarm poverty threshold. Each year the poverty threshold is adjusted for cost of living increases by the Consumer Price Index (22,32).

The poverty threshold in 1975 for a farm family of four with a male head of household is $4,697 per year; for a nonfarm family of four the poverty threshold is $5,502. The range of income cutoff levels is from $2,187 for a single female over sixty-five years of age and living on a farm to $9,056 for a nonfarm family of seven or more with a male head of house. Price inflation has caused the 1975 income definition to increase significantly from 1964 levels when the similar range of incomes was $920 and $5,100.

The cutoff for poverty has always been a subject of controversy. If generally accepted levels of the turn of the century were adjusted for price changes, they would be significantly below currently stated levels (20, 8, 19). Similarly, the current figures reflect money incomes and fail to fully account for payments in kind and social services (such as food stamps, medicare, etc.) provided by some of the newer Federal programs. A recent Congressional Budget Office study estimates that adjustments for these latter omissions would cut in half the number of people judged to be in poverty (5). The CBO study did not make separate estimates for farm and nonfarm households. 2/ The earlier

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2/ Poverty counts are from the Current Population Survey. Census estimated that 97 percent of wages are reported on the CPS. Farm income, dividends and interest are seriously underreported. It is estimated that they are underreported on the CPS by 51.6 percent for farm income and 55.8 percent for non-wage income. It is believed that only 75 percent of public assistance and less than 60 percent of unemployment insurance payments are reported. The most serious deficiency was believed to be among "In-kind transfers" such as food stamps, child nutrition programs, Medicare and Medicaid. Information was not complete enough to adjust the estimates of farm poverty but the total U.S. estimate was reduced to 6.7 percent of the population or half the CPS published figure.

mentioned report to Congress (35) reviewed a number of proposed definitional changes including removing distinctions by sex of head, using more current surveys of expenditures, adjusting the definition for assets, taxes, subsidy programs, cost of living differences between regions, and the development of a fully specified market basket of goods and services to provide a basis for detailed variations. All these proposals accept a subsistence basis for the definition and alter the concept of subsistence for a region, type of family, and so forth. An alternative could be the inequality basis with a poverty line based on some percentage of median income. It would appear that definitional controversies will continue.

The Dimensions of Farm Poverty

The poverty problem has in the past been described primarily in terms of characteristics such as occupation, age, race, sex and regional dimensions. When the problem was brought into focus during the sixties, the occupation of farming was clearly identified with a high incidence of poverty. While 22 percent of the total population was classified in poverty in 1960, that portion of the farm population was 51 percent (Table 2). The past 15 years have brought about some important changes in the identification of farming with poverty. Although poverty is still more prevalent among those engaged in farming than for the nation as a whole, the drop for the farm sector is striking. In 1975, 16 percent of the farm population and 12 percent of the total population were below the poverty line (32).

Not only has the incidence of poverty among farmers declined, but the relative distribution of the poor between farm and nonfarm residence has undergone

Table 2.--Incidence of Persons in Poverty by Residence and Race, United States, 1960, 1965, 1970, 1975

Item	Farm			Nonfarm		Total
	White	Negro 1/	Total	White	Negro 1/	Population
All Persons						
1960	43.2	92.3	51.3	15.7	51.0	22.2
1965	27.2	85.5	34.7	12.4	44.4	17.3
1970	17.3	66.4	21.1	9.5	32.6	12.6
1975	14.2	50.1	16.4	9.5	31.0	12.3
Persons in Household with Male Head						
1960	42.6	92.6	50.2	12.4	43.7	18.5
1965	26.3	85.2	33.1	9.1	35.7	13.2
1970	16.4	63.6	19.4	6.3	20.2	7.7
1975	13.6	50.8	15.7	6.3	17.4	7.8
Persons in Household with Female Head						
1960	54.8	89.8	67.2	41.9	75.5	49.5
1965	44.8	86.6	58.2	38.4	69.7	46.0
1970	32.7	77.1	44.0	31.5	58.7	38.5
1975	24.2	45.8 2/	27.0	28.2	53.7	34.6

1/ Data for years 1960 and 1965 are for Negro and other races; 1970 and 1975 are for Negro.
2/ Base less than 75,000; figures presented without confidence.
Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, Numbers 68-table, 81-table 3, and 106-table 8.

a marked change as well. In 1960, 19 percent of all the people in the poverty category lived on a farm; by 1975 only 5 percent had a farm residence (29, 25). This adjustment is the result of two major factors. First, the movement of people out of farming continued; the number of people with a farm residence declined by more than five and one-half million in the 15-year period. And second, many of those who did remain raised their income levels by taking off-farm jobs; dual employment became increasingly prevalent. Although the adjustment process is still ongoing, it is unclear what effect, if any, the current reverse trend in rural to urban migration will have on poverty in farming and off-farm employment. Equally unclear is what has happened to the former farm residents who were in poverty and left farming. Much evidence exists in defense of rural-urban migration as a means of raising the incomes of former rural residents (29). Studies do exist which separate the rural poor according to farm and non-farm residents and find that the farm poor have experienced significantly less success in raising their incomes after migrating to urban areas (25, 12).

The regional dimension of poverty has, in the past, been particularly identified with the South. In 1960, approximately half of the Nation's low income farm families lived in the South (33). The most current poverty figures which are available on a regional basis show that no change had occurred in that distribution. In 1970, exactly 50 percent of all farm families in poverty that year were in the South. Additional "pockets" containing substantial amounts of farm poverty were identified using the data of the early 1960's. These included the Ozark mountain area of Arkansas, Missouri and Oklahoma; the southern tier counties of Indiana, Illinois and Ohio; the cutover areas of

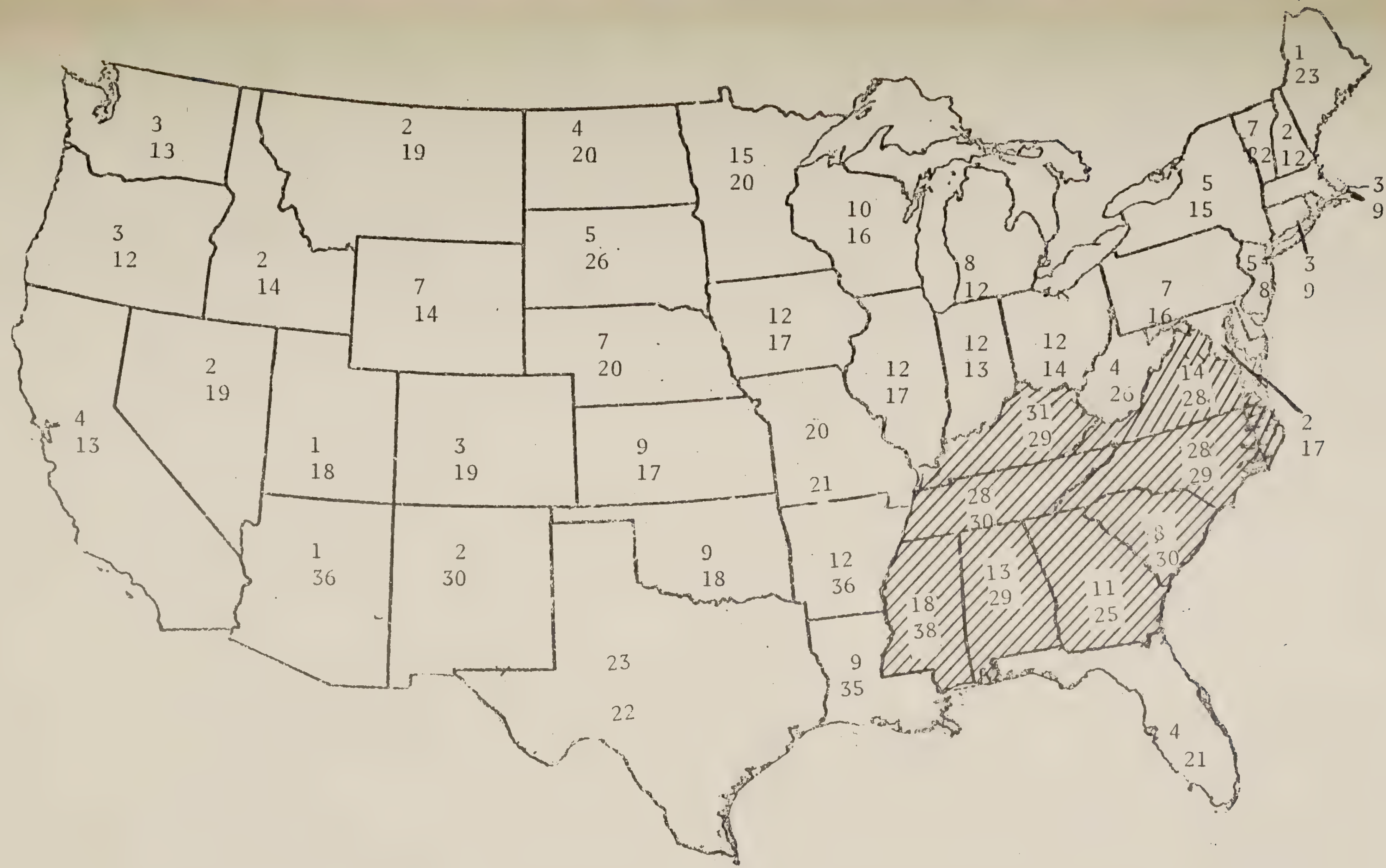
Michigan, Wisconsin and Minnesota, and areas of Spanish-speaking American and Indian concentrations in the Southwest. Most available indications are that these regions still contain significant numbers of farmers fitting the poverty definition.

Some farmers are temporarily in poverty because of low product prices, high input costs, unfavorable weather conditions, and inventory buildups, but they have a sufficient size of business to be above the poverty line in most years and should be removed from the poverty count. When these larger farms are subtracted an even more striking regional concentration occurs. For example, if only those farmers in poverty who had gross annual sales of farm products of less than $10,000 in 1970 are considered, then 57 percent of U.S. farm poverty is in the South. Further, eight States will account for almost two-fifths of farm poverty (see map). Preliminary data from the 1974 Census of Agriculture tend to verify the observation of little change in regional distributions, as 52 percent of the farms grossing less than $10,000 per year are in the South.

Another dimension of the poverty problem which has been closely associated with the South is race. In 1960, almost two and one-half million nonwhites lived on farms; over 92 percent of this group had incomes below the poverty line (30). By 1975, the Negro farm population had declined to under one-half million and the poverty portion dropped to 50 percent.3/ Much of this resulted from the rapid decline in nonwhite farm operators which has been going on since World War II. Negro operators had fewer farm resources and more limited off-farm employment opportunities in their local communities than did their white counterparts. Therefore, they tended to migrate from rural areas reducing the racial dimension of farm poverty in the South.

3/ The 1960 and 1975 percentages are related to slightly different populations as a small portion on the non-white farm population is other than Negro.

Major Concentrations Of Farm Poverty In The United States, 1970



U.S. TOTALS

378,000
21 percent

Top Numbers : Thousands of households with income below poverty and farm sales of less than $10,000.

Bottom Numbers: Percent of all farm households with sales of less than $10,000 that are below the poverty line.

Other commonly mentioned dimensions of poverty include age, sex of head of household, and single person households. The evidence with respect to age is unclear. The elderly have fewer resources for expansion and lower levels of education, but they do have acceptable options for income maintenance particularly with Social Security assistance (7, 18). The 1975 data show little difference due to age as 16 percent of those over 65 years of age are in poverty compared with 16 percent of all farm people.

Households with a female head generally have lower incomes. In 1975, an estimated 11 percent of the farm households had a female head and 31 percent had incomes of less than the poverty threshold. By contrast only 14 percent of the households with a male head had poverty incomes. Single individuals with farms make up 14 percent of the farms and have a poverty rate of 33 percent. Slightly more than half of this group were women and 90 percent were white.

As a point of perspective it can be pointed out that the vast majority of farms (84 percent) have a white, male head of house. And, only 13 percent were found to be in poverty in 1975. This rate is, however, almost double the national average for white, male heads of households.

Farming Operations

Poorer farm families tend to operate smaller scale farms with little capital, but ample labor. But successful farms with adequate returns for labor and capital usually have operations with larger acreages, much capital and a relatively small proportion of labor. The resource combination of the farming operations of the poor usually resulted in high average cost production and low returns to resources.

Small farms with sales of less than $10,000 do not equate with poverty as many have incomes from other sources, primarily from off-farm work (34, 15). Just under one-half of all small farmers work off the farm more days than are devoted to farm work. And as would be expected, over 90 percent of all part-time farmers are small farmers. Further, family income is a summation of the earnings of all members or at least both spouses. With the increasing participation of women in the labor force, many farm families have incomes above the poverty line because of new work opportunities for women. When other sources of non-farm income, such as rent, old age benefits, or investment income, are included with off-farm work, the nonfarm incomes far exceed net incomes on the smaller farm units (Table 3).

A few farms with sales approaching $10,000 may earn incomes above the poverty level from certain commodities. Operators of tobacco, vegetable, and fruit farms are such examples, because higher labor requirements and low capital-labor substitution ratios result in higher labor incomes from a given level of farm sales. Small farms (with sales less than $10,000) accounted for 65 percent of all farms in 1969, but only 21 percent of these farm households in this sales group were counted in the poverty group.

Farms with sales of less than $10,000 were delineated to study the farming operations of poverty farmers, since the average net income on farms selling up to $10,000 of farm products per year would be below the poverty level for most farm households. Where possible, the farms with operators working off the farm 100 days or more were subtracted.

In 1970, farms with sales of less than $10,000 had no residual return left for capital, if an initial allocation is made for labor and management (13).

Table 3.--Income per Farm Operator Family by Major Source and by Value of Sales

Year	Farms with Sales							
	100,000 & over	40,000 to 99,999	20,000 to 39,999	10,000 to 19,999	5,000 to 9,999	2,500 to 4,999	Less than 2,500	All Farms
	Net Farm Income-Dollars							
1960	30,826	13,812	8,080	5,095	3,212	1,931	806	2,806
1965	33,084	15,136	8,578	5,527	3,211	1,830	899	3,533
1970	41,124	17,034	10,305	5,800	3,220	1,692	1,018	4,788
1975	55,916	16,633	9,623	5,224	2,987	1,684	1,727	7,410
1976	55,716	16,558	9,622	5,248	3,030	1,725	1,921	7,885
	Off-Farm Income-Dollars							
1960	N/A	N/A	1,678	1,258	1,574	1,848	2,732	2,140
1965	7,278	3,680	2,507	2,319	3,232	3,471	4,713	3,792
1970	7,596	3,943	3,350	4,165	5,419	6,151	7,391	5,874
1975	12,007	6,229	5,199	6,397	8,283	9,400	14,223	10,148
1976	13,310	6,906	5,762	7,060	9,124	10,342	15,630	11,174
	Total Income-Dollars							
1960	N/A	N/A	9,758	6,353	4,786	3,779	3,538	4,946
1965	40,362	18,816	11,085	7,846	6,443	5,301	5,612	7,325
1970	48,720	20,977	13,655	9,965	8,639	7,843	8,409	10,662
1975	67,923	22,862	14,822	11,621	11,270	11,084	15,950	17,558
1976	69,026	23,464	15,384	12,308	12,154	12,067	17,551	19,059

Source: Farm Income Statistics, Statistical Bulletin No. 576, July 1977, ERS, USDA.

The net farm income for these farms was estimated to be only slightly over $1,000. The estimated equity in production assets averaged $32,000 for these farms. These farming operations had little debt (only about $5,000 per farm). Most of the assets, 75 percent, were in land which averaged 153 acres per farm. Most farm operators, 75 percent owned all the land they farmed. Another 11 percent of assets were invested in machinery averaging $4,000 per farm for those with less than $10,000 sales in 1970. Much is frequently made of the desirability (and difficulty) of including wealth and assets held in the definitions of poverty (35).

While it is correct that these small farms noted above do appreciate in value and do represent a resource which may be consumed, their average value is not too different than an urban house and lot. Within the farming sector, a more meaningful distinction based on net worth or assets would be to separate out of the poverty class those larger farms with temporary poverty incomes. These larger farms with significant assets and gross farm sales may realize a net farm income below the poverty cutoff in a given year as their income levels fluctuate because of factors such as unfavorable weather, increases in input costs or declines in product prices.

The farms with sales of from $5,000 to $9,000 averaged $3,000 net income in 1975. Tobacco farms provide higher net returns than the average while poultry farms with sales of less than $10,000 had average net incomes of less than $500. Cash grain, fruit and nut, livestock and cotton farms also had below the average net farm income. One-third of the full-time farms[4/] with sales of less than $10,000 of sales in 1969 were livestock farms. Another fifth were cash grain farms. Tobacco, dairy and general farms also accounted for 10 percent each of these small full-time farms.

4/ Farm operators working off the farm less than 100 days.

Another classification of small farms which may reveal further information about the lowest income farming operations is the Economic Class 6 farms.5/ This group of over 218 thousand farms reported an average 1970 net income from all sources of under $3,000 per year. The farms averaged 96 acres in size with 49 acres of available cropland. However, over 56 percent had total acreages of less than 50 acres. The average value of land and buildings was $24,000 and machinery was valued at $3,400. Less than 5 percent of the farms reported machinery values in excess of $10,000. Only one-third of the farms reported any debt; the average real estate indebtedness of those with debt was 21 percent of the value of land and buildings. As a group, the operators averaged 51 years of age; 75 percent of these farmers were between 45 and 64 years of age.

A high percentage (66 percent) of the Class 6 farms were located in the South; another 24 percent were in the North Central Region. The principal types of farms were livestock (41 percent), tobacco (13 percent) and cash-grain (12 percent).

As a group the Class 6 farms had low productivity. Some examples of this were yields of 41 bushels of corn, 1.4 tons of hay, and 23 bushels of wheat per acre (census averages for all farms were 86, 2.2 and 29 respectively). There was little difference to be noted with tobacco poundage yields.

Most of the group did receive some income to supplement their farming. Over 40 percent had some wage income from off-farm jobs and just under 40 percent were receiving Social Security or some other retirement income.

The low income and equity levels of poverty level farmers do not provide much base for expansion of the farm business through increased borrowing. The low machinery investment indicates a lack of capacity for expansion on rental

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5/ Economic Class 6 farms have agricultural sales under $2,500 per year and farm operators under 65 years of age who work off-farm under 100 days per year.

land. Also, these operators with inadequate machinery would not be considered favorably by landlords when compared with better equipped farm operators who are also competing for rental land.

A Focus for Research

The above review of literature and data can supply some general conclusions. The incidence of poverty among farmers has dropped dramatically during the past 15 years. The past decline in the farm population and the increase in dual employment among farmers explains much of this change. However, the rate of poverty is still markedly higher for people with a farm residence than it is for the population as a whole and there are regional and personal characteristics which are associated with high rates. All of the data mentioned are based on definitions which are still in need of adjustment.

The review process has left three groups of unanswered questions:

a. Are our working definitions and data collection procedures adequate to describe the low income problems of the remaining poor farm residents?

   1. Are people with low farm earnings a unique group? Are they affected by year to year income fluctuations?

   2. What are acceptable ways to define their income? Should this include assets and reserves?

   3. What confidence limits can we place on the data which describe the low income spectrum of the farm population?

   4. What are the costs of providing minimum levels of living acceptable by persons in communities with conditions which vary by region?

b. Will farm poverty disappear through migration and the addition of income from nonfarm sources if left to the existing forces in the economy?

   1. To what extent are the farm residents who remain in poverty in that condition because of isolation, lack of skills or lack of motivation?

   2. Will the next generation continue with low incomes?

3. Have the poor who left farming escaped from poverty?

4. Do any of the people who enter the rural areas from urban centers operate small farms and incur poverty problems?

5. What is the potential impact of increased employment opportunities for women on the farm poverty problem?

c. What is the potential for income improvement by farm people in poverty through a more efficient utilization of farm resources?

1. Can greater utilization be made of speciality crops requiring high labor inputs or do these possess only limited markets?

2. To what extent can their assets in land and capital be increased either through consolidation or other means?

3. What are the prospects for improvement of their managerial skills?

4. Can farm machinery and other technologies be readily adapted to small scale operations?

These questions lead us to suggest the following tentative general hypotheses:

1. Farm residents who are in poverty possess some characteristics which make them uniquely different from other rural poverty groups. Factors to consider may include:

   (a) strongly held beliefs in independence and agrarianism;
   (b) sporatic yearly income flows making program participation difficult;
   (c) low ability to retrain for other work.

2. The potential for income improvement in farming is limited to few of the existing poverty level farmers. Some factors may include:

   (a) limited demand for labor intensive production;
   (b) low resource base inhibiting adjustments;
   (c) topography of area not conducive to change.

3. A hard-core residual of poverty will remain associated with farming. A partial list of considerations is:

   (a) current members of this group may possess multiple handicaps making exit difficult;
   (b) isolated geographic areas may contain few options;
   (c) this lifestyle maybe chosen by people who "march to a different drummer."

The plight of the rural poor was made known a decade ago when a Presidential Commission called them "The People Left Behind." As the farm poverty group becomes relatively smaller, they can easily be "left behind" and forgotten if the above hypotheses are correct. Further, it is possible that a combination of programs may be necessary to reduce farm poverty instead of cateogrical poverty reducing programs operated by separate agencies. Benefits could accrue to the poor and perhaps to society as a whole from the testing of these hypotheses.

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